

**STATE OF INDIANA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS**

ORDER OF INTEGRATION

Re: Application of Campbell Energy, LLC

) Case No.: DOG-04-2015

For the integration of oil and gas interests owned by Tyler J.)
Bateman, CTC Minerals, Inc. c/o Bank of America, Jard Group,)
Vinod C. Gupta, David C. Dodson c/o Fifth Third Bank, into the)
Glaze 1-H Unit located in Part of Section's 2 and 3, Township 4
South, Range 14 West, Posey County, Indiana

As provided in Indiana Code 14-37-3-16, an informal hearing was held via teleconference in this matter on Tuesday, December 15, 2015, beginning at 11:30 A.M., Eastern Time, before the Indiana Department of Natural Resources (IDNR), Division of Oil and Gas (Division), at the Indianapolis Office of the Division located at 402 West Washington Street, Room W293, in Indianapolis, IN 46204. The purpose of the informal hearing was to consider the Petition for Integration of Interests (Application) for the above described parcels specifically identified in a petition dated November 13, 2015, prepared by William C. Illingworth, Basin Law Group LLP, on behalf of Campbell Energy, LLC, hereinafter referred to as "Applicant".

Having reviewed the entire record in this matter, and being duly advised, the Director of the Division (Director) makes the following Findings of Fact, Conclusions of Law and Order of Integration in this matter:

FINDINGS OF FACT

- 1 Applicant Campbell Energy, LLC is an Illinois corporation whose principal address is 1327 County Rd. 800 N., Carmi, Illinois, 62821.
- 2 Applicant has represented that it is the operator of certain oil and gas leases covering the following properties located in Gibson County, Indiana:
 - a. Leasehold 1 – The Southwest Quarter (SW/4) of the Northwest Quarter (NW/4) of the Northwest Quarter (NW/4) of Section 2, Township 4 South, Range 14 West, containing 9.571 acres.
 - b. Leasehold 2 – The Southwest Quarter (SW/4) of the Northwest Quarter (NW/4) and the Northwest Quarter (NW/4) of the Southwest Quarter (SW/4) of Section 2, Township 4 South, Range 14 West, and the East Half (E1/2) of the Northeast Quarter (NE/4) of Section 3, Township 4 South, Range 14 West, containing 49.278 acres.
- 3 Applicant has drilled, completed, and capable of producing oil from a horizontal well in the Waltersburg Sandstone formation on the lands covered by the aforementioned leases.
- 4 Applicant has been successful in securing agreement to the pooling of interests from all working interest owners, royalty interest owners and overriding royalty owners of the oil and gas interests, with the exception of the following:

Name
Tyler Bateman
621 E. 15th Street

Interest
0.00375360 RI in Leasehold 1

Alton, IL 62002-3567

CTC Minerals, Inc.
c/o Bank of America
P.O. Box 840738
Dallas, TX 75284-0738

0.00223200 RI in Leasehold 1

Jard Group
631 Locust Street
Mt. Vernon, IN 47620-1934

0.00031500 RI in Leasehold 1

Vinod C. Gupta
17962 Foxborough Lane
Boca Raton, FL 33496-1321

0.00013900 RI in Leasehold 1

David C. Dodson
c/o. Fifth Third Bank
P.O. Box 719
Evansville, IN 47705-0719

0.00451500 RI in Leasehold 1

- 5 The proposed Pooling Agreement for the Glaze 1-H Unit suggested participation factors based upon the following two primary aspects:
- the sharing in the total production from the pooled unit in proportion to which their interest bears to the entirety of the unit acreage
 - the percentage of the total footage of producing formation of the lateral underlying each individual tract.

The proposed participation factors were agreed to by the interest holders who voluntarily signed the pooling agreement. These participation factors are as follows:

Leasehold 1, The Southwest Quarter (SW/4) of the Northwest Quarter (NW/4) of the Northwest Quarter (NW/4) of Section 2, Township 4 South, Range 14 West, containing approximately 9.571 acres.	15%
Leasehold 2, The Southwest Quarter (SW/4) of the Northwest Quarter (NW/4) and the Northwest Quarter (NW/4) of the Southwest Quarter (SW/4) of Section 2, Township 4 South, Range 14 West, and the East Half (E1/2) of the Northeast Quarter (NE/4) of Section 3, Township 4 South, Range 14 West, containing approximately 49.278 acres.	85%

- 6 Except for the interests of Tyler J. Bateman, CTC Minerals, Inc. c/o Bank of America, Jard Group, Vinod C. Gupta, and David C. Dodson c/o Fifth Third Bank, all other owners of oil and gas interests within the proposed pooled unit have voluntarily agreed to integrate their interests in the production that will result from primary recovery operations within the unit according to tract participation factors proposed by the Applicant.

- 7 Despite due diligence, the Applicant was not able to obtain consent for the pooling of the interests held by those owners noted in paragraph 4 above.
- 8 IC 14-37-9-1(b) requires that, where owners of separate tracts within an established drilling unit do not agree to integrate their interests, the IDNR shall require the owners to integrate their interest in order to prevent waste or the drilling of unnecessary wells and to develop the land as a drilling unit.
- 9 IC 14-37-9-2 requires that an order for integration must be based upon reasonable terms that give the owner of each tract an equitable share of oil and natural gas in the unit or pool.
- 10 The Petition filed in this matter by the Applicant seeks, pursuant to IC 14-37-9, the issuance of an integration order whereby the interests of all owners of separate tracts within the Glaze 1-H unit are integrated and the combined leases developed as a consolidated production unit.

- 11 The Applicant attached the following documents to its Petition:

Exhibit A	Lease Descriptions covering leasehold 2
Exhibit B	Map depicting horizontal laterals including the acreage penetrated by those laterals.
Exhibit C	Copy of Oil and Gas Lease, (Leasehold 1)
Exhibit D	Division of Interest Statement from Countrymark Refining & Logistics LLC covering leasehold 1 and leasehold 2
Exhibit E	Sample of proposed unit pooling agreement
Exhibit F	Correspondence documenting attempted contacts with unsigned interest holders
Exhibit G	Map depicting net acreage for leasehold 1 and leasehold 2 as well as the footage of producing portions of the Glaze 1-H in leasehold 1 and the producing portions of the Glaze 1-H in leasehold 2.

- 12 On November 19, 2015, a notice of the informal hearing on this matter was sent to via first class mail to the addresses indicated in Finding #4. Will Illingworth, counsel for the Applicant, was emailed a copy of the notice on the same date.
- 13 The following persons were present at or participated in the informal hearing via teleconference held in Indianapolis on December 15, 2015:

<u>Person</u>	<u>Representing</u>
Herschel McDivitt	Indiana Dept. of Natural Resources
Jim AmRhein	Indiana Dept. of Natural Resources
Beth Hernly	Indiana Dept. of Natural Resources
Will Illingworth	Campbell Energy, LLC
Matt McCarthy	Campbell Energy, LLC
Jim Fehrenbacher	Rex Energy
Tyler Bateman	Himself
Kent Brasseale	Locust Street Company
Gail Garrett	Glaze Property
David Simmons	Glaze Property

- 14 At the informal hearing, Tyler Bateman asked questions with respect to how the proposed participation factors for the Glaze 1-H Unit were determined. Mr. Bateman is a royalty interest owner in Leasehold 1 and indicated that the participation factor for Leasehold 1 should be much higher than the 15% requested by the Applicant since the well was drilled by Campbell Energy LLC onto acreage within Leasehold 1 without consent from owners of oil and gas interests therein.
- 15 Exhibit G (Map 1) of the petition shows the following calculations that could be used if the participation factors were based on acreage contribution alone:
 - a. Leasehold 1(9.571 acres) – 16.26%
 - b. Leasehold 2 (49.278 acres) – 83.74%
- 16 Exhibit G (Map 2) of the petition shows the following calculations depicting the total length of all laterals of the horizontal well which are open in the leaseholds as follows:
 - a. Leasehold 1 (125') - 5% of total
 - b. Leasehold 2 (2,453') – 95% of total


It is not clear why this map was included with the petition other than to portray the total area that could potentially be drained by the horizontal well configuration, all other factors between the two properties being equal (permeability, porosity, pay thickness, pore space, etc.). In theory, unless additional vertical or horizontal wells were completed into the Waltersburg sandstone within the Glaze 1-H Unit in the future, a much larger proportion of oil would be drained from Leasehold 2 than a straight acreage participation factor would reflect.
- 17 Applicant has proposed the following allocation in their petition which has been presented to and approved by approximately 99% of all owners of interest in the leaseholds:
 - a. Leasehold 1 – 15% of Well Production
 - b. Leasehold 2 – 85% of Well Production
- 18 In response to Mr. Bateman's request that participation factors should take into consideration the fact that in drilling the existing well Campbell Energy LLC did in fact encroach on lands not fully leased at the time, the Division indicated that it has taken enforcement action against Campbell Energy LLC, which action by the Division is currently under appeal.
- 19 Excluding acreage from Leasehold 1 from the proposed Glaze 1-H Unit would leave Campbell Energy LLC with few other options than to plug the well back so that no portion of any horizontal lateral is open on or within 330' of Leasehold 1. This would involve considerable expense and potentially decrease the amount of oil ultimately to be recovered from these properties unless additional wells were to be drilled on Leasehold 1 into the Waltersburg sandstone. Any of these alternatives could potentially be considered waste under IC 14.37 and seem unwarranted given that the overwhelming majority of oil and gas owners in Leasehold 1 have agreed to the establishment of the Glaze 1-H Unit consistent with the terms requested by the Applicant in this petition.

CONCLUSIONS OF LAW AND ORDER OF INTEGRATION

1. IC 14-37-9 and any rules promulgated there under apply and are pertinent to the subject matter of the Application filed herein.
2. There has been full compliance with all notice requirements provided by law, and all interested parties have been afforded an opportunity to be heard.
3. The IDNR and the Division have jurisdiction to hear this matter and authority, as delegated by the Natural Resources Commission, to order the integration of interests in accordance with IC 14-37-9-1(b).

4. The Petition, herein referenced, contains the elements required by law.
5. The royalty interests held by in lands within the Glaze 1-H Unit described herein in Finding #4, located in the Sections 2 and 3, Township 4 South, Range 14 West, Posey County, Indiana, are hereby ordered to be integrated into the Glaze 1-H Unit.
6. It is reasonable, fair, and equitable, as required by IC 14-37-9-2, that such division of interest in the Glaze 1-H Unit be accomplished so that unit operations may be conducted as if the unit area had been included in a single lease executed by all owners of oil and gas interests within said unit.
7. As provided in IC 14-37-9-2, the portion of the production allocated to the owner of any tract within the Glaze 1-H Unit shall be considered as if produced from a well drilled on that tract.
8. The fair and equitable participation factors will be based solely on the proportion to which an owners interest bears based upon the entirety of the unit acreage. Therefore, the participation factor for Leasehold 1 is 15% and the participation factor for Leasehold 2 is 85%.
9. This order is a final administrative action of the IDNR and, as such, is subject to administrative review under IC 4-21.5-3-7 and may be placed of record by the Applicant in the appropriate public record of Posey County, Indiana.

December 22, 2015
Dated



Herschel L. McDivitt, Director
Division of Oil and Gas

**DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES**

**NOTICE OF ORDER OF INTEGRATION and
NOTICE OF RIGHT TO APPEAL**

Interested persons are hereby notified that on December 22, 2015, the Indiana Department of Natural Resources, through the Director of the Division of Oil and Gas, issued an Order of Integration with respect to certain oil and gas drilling interests under Cause No. DOG-04-2015. The Order of Integration is based on a Petition for Integration of Interests previously filed by the Applicant, Campbell Energy LLC and on an Informal Hearing held in this matter on December 15, 2015, in Indianapolis, Indiana to consider the request for the integration of royalty interests for oil and gas underlying certain properties located Sections 2 and 3, Township 4 South, Range 14 West, Posey County, Indiana held by Tyler J. Bateman, CTC Minerals, Inc. c/o Bank of America, Jard Group, Vinod C. Gupta, and David C. Dodson c/o Fifth Third Bank.

A copy of the Order of Integration is available from the Division of Oil and Gas website at <http://www.in.gov/dnr/dnroil/3790.htm>.

The terms of the Order of Integration are subject to appeal and review under IC 4-21.5-3-7 in a hearing before an Administrative Law Judge. In order to qualify for administrative review, a person may file a request for review in writing stating facts that demonstrate the petitioner is:

- (A) a person to whom the order is specifically directed;
- (B) aggrieved or adversely affected by the order; or
- (C) entitled to review under any law.

In order to be timely, any petition for administrative review must be filed with the Division of Hearings, Natural Resources Commission, Division of Hearings, Indiana Government Center North, 100 North Senate Avenue, Room N501, Indianapolis, IN, 46204-2200 within eighteen (18) days after the date of this notice. If no petition for administrative review is filed within the stated time limit, all terms and conditions contained in the Order of Integration will become final and binding.

Date: December 22, 2015



Herschel L. McDivitt, Director
Division of Oil and Gas